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SUBJECT: DANISH GOVERNMENT'S CRISIS PLAN

REF: COPENHAGEN 2661 AND 3397

SUMMARY: PRIMIN POUL HARTLING PRESENTED HIS ECONOMIC

"CRISIS PLAN" IN PARLIAMENT DEC 3. THE PLAN COMBINES

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A TEN-MONTH WAGE AND PROFITS FREEZE WITH STRICT CONTROLS

TO PREVENT PRICE INCREASES IN BASIC DOMESTIC FOOD PRODUCTS. THE GOVERNMENT'S PROPOSALS WERE GIVEN A NEGATIVE RECEPTION BY THE "LABOR" PARTIES, FURTHERING EXPECTATIONS OF AN EARLY ELECTION. END SUMMARY.

1. HARTLING'S TEN-POINT CRISIS PLAN TO MEET DENMARK'S WORSENING ECONOMIC AND EMPLOYMENT PROBLEMS INCLUDES: POINTS (1) AND (2) AN EXTENSION OF THE PRESENT NATIONAL WAGE CONTRACTS IN THE PRIVATE AND PUBLIC SECTORS THROUGH DEC 31, 1975. (COMMENT: IN EFFECT, THIS MEANS A WAGE AND SALARY FREEZE FOR 1975 SINCE THESE CONTRACTS DO NOT CALL FOR ANY FURTHER PERIODIC INCREASES. THE EMPLOYEE OBLIGATION NOT TO STRIKE WOULD ALSO, OF COURSE, BE EXTENDED.) (3) SUSPENSION OF THE AUTOMATIC COST-OF-LIVING INDEXING SYSTEM FOR WAGES DURING 1975, WITH COMPENSATION TO BE PROVIDED IN OTHER FORMS. IN THIS CONNECTION THE FIRST THREE INCREMENTS, EXPECTED MARCH 1, WOULD BE ABOLISHED WITH THE GOVERNMENT PAYING INSTEAD OF TAX-FREE CASH BENEFIT OF 100 KRONER (17 DOLLARS) PER MONTH DIRECTLY TO ALL WORKERS FOR THE REMAINING TEN MONTHS OF THE CRISIS PLAN. (4) A NEW COST OF LIVING INDEX TO BE ESTABLISHED WITH JAN 1 COST LEVELS EQUALLING 100. IF THE INDEX SHOWS A THREE POINT RISE BY JULY 1, THE GOVERNMENT, EMPLOYERS AND TRADE UNIONS ARE TO ENTER INTO NEGOTIATIONS REGARDING ADDITIONAL COL COMPENSATION. SUCH ADDITIONAL COMPENSATION, IN ALL CIRCUMSTANCES, WOULD BE BASED ON A UNIFORM TREATMENT OF SALARIED AND WAGE WORKERS. (THESE TWO GROUPS ARE CURRENTLY UNDER DISSIMILAR SYSTEMS.) (5) OLD-AGE AND DISABILITY PENSIONS WOULD BE EXEMPT FROM THESE CHANGES AND WOULD CONTINUE UNDER PRESENT COST OF LIVING INDEXING. (6) SALARIES OF PUBLIC OFFICIALS AND HONORARIUMS TO BE UNCHANGED IN 1975. (7) DIVIDENDS IN 1975 TO BE NO HIGHER THAN IN 1974. (8) FREEZE ON MARK-UPS ON ALL GOODS AND SERVICES (THUS PRICES ARE NOT TECHNICALLY FROZEN AND INCREASED COSTS DUE TO HIGHER IMPORT PRICES WILL BE PERMITTED TO BE PASSED ON TO THE CONSUMER. GOVERNMENT PRICE CONTROL MACHINERY WILL ATTEMPT, HOWEVER, TO FREEZE THE DOMESTIC ELEMENT IN PRICES.) (9) AGRICULTURAL PRICES FOR PORK, LIMITED OFFICIAL USE

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BEEF, VEAL, POULTRY AND DAIRY PRODUCTS TO BE UNCHANGED AT PRESENT PRODUCER-COST LEVELS. (THIS PROVISION REQUIRES WAIVER OF EC RULES WHICH GOVERNMENT INTENDS TO NEGOTIATE WITH THE COMMISSION DURING THE NEXT TWO MONTHS.) (10) INCREASED TAX ON CAPITAL GAINS.

2. THE ABOVE TEN POINTS, HARTLING EXPLAINED, CONSTITUTE AN INTEGRAL PACKAGE THAT CANNOT BE ADOPTED PIECEMEAL.

HE ALSO REVEALED PLANS FOR TEN ADDITIONAL ADMINISTRATIVE ACTIONS INTENDED TO RELIEVE THE UNEMPLOYMENT PROBLEM AND TO STIMULATE BUSINESS INVESTMENT. THESE INCLUDE INCREASED SUBSIDIES FOR RETRAINING WORKERS, RELAXATION OF GOVERNMENTAL EXPENDITURE CEILINGS AND MORE FAVORABLE DEPRECIATION RULES FOR BUSINESS.

3. CONTRARY TO ADVANCE SPECULATION, THE GOVERNMENT'S CRISIS PLAN CONTAINS NO TAX ALLEVIATIONS OR OTHER COMPENSATION TO LABOR TO COUNTERBALANCE THE SUBSTANTIAL DIRECT BENEFIT TO BUSINESS INHERENT IN THE GOVERNMENT'S ASSUMING THE EMPLOYERS' COSTS UNDER THE EXISTING COST-OF-LIVING SYSTEM. CONSEQUENTLY FIRST TRADE UNION REACTION HAS BEEN PREDICTABLY EXTREMELY NEGATIVE. THOMAS NIELSEN, CHAIRMAN OF THE DANISH TRADE UNION FEDERATION (LO), CALLED THE PLAN A "ONE-SIDED ATTACK ON THE TRADE UNIONS".

4. INITIAL REACTION FROM THE POLITICAL PARTIES HAS BEEN MIXED WITH THE "LABOR" PARTIES (SOCIAL DEMOCRATS, SOCIALIST PEOPLES AND COMMUNISTS) CONDEMNING THE PLAN AND THE NON-SOCIALIST PARTIES GENERALLY MORE POSITIVE. HOWEVER, RADICAL PARTY LEADER HILMAR BAUNSGAARD WAS SKEPTICAL SINCE THE PLAN DID NOT RESPECT THE TRADITIONAL RIGHTS OF THE LABOR MARKET ORGANIZATIONS (EMPLOYER AND TRADE UNION FEDERATIONS) TO NEGOTIATE A SETTLEMENT WITHOUT GOVERNMENT INTERFERENCE. THE JUSTICE PARTY AND CONSERVATIVE PARTY SPOKESMEN WERE ALSO EQUIVOCAL BUT THEIR PARTIES ARE EXPECTED TO SUPPORT THE PLAN. MOGENS GLISTRUP OF THE PROGRESS PARTY EXPRESSED DISAPPOINTMENT THAT TAX REDUCTIONS FOR LOWER INCOME GROUPS WERE NOT INCLUDED, BUT OTHERWISE WAS IN AGREEMENT. CENTER DEMOCRAT ERHARD JAKOBSEN WAS THE MOST CRITICAL

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(SUPRISINGLY) STATING THAT HIS PARTY INTENDED TO PUT FORWARD AN ALTERNATIVE PROPOSAL.

6. PARLIAMENT WILL CONSIDER THE GOVERNMENT'S PLAN DEC 5 WITH FIRST AND POSSIBLY SECOND READINGS OF THE RELEVANT LEGISLATION.

7. COMMENT: THE GENERAL EXPECTATION FOLLOWING THE RELEASE OF HARTLING'S PLAN IS THAT IT WILL PROVE UNACCEPTABLE TO THE SOCIAL DEMOCRATS AND THE TRADE UNION FEDERATIONS AND THUS REQUIRE THE GOVERNMENT TO OBTAIN A NEW EXPRESSION OF PUBLIC SUPPORT VIA AN ELECTION. AS PRESENTED, THE PLAN LEAVES CONSIDERABLE ROOM FOR CONCESSIONS AND IT APPEARS LIKELY THAT THE GOVERNMENT HAS MERELY SET OUT ITS INITIAL BARGAINING

POSITION, EXPECTING TO INCORPORATE CONCESSIONS TO LABOR IN SUBSEQUENT NEGOTIATIONS. IT IS POSSIBLE THAT ERHARD JAKOBSEN, WHOSE LOYAL SUPPORT OF THE GOVERNMENT IN THE PAST DESERVES SOME REWARD, MIGHT HAVE BEEN GIVEN THE ROLE OF PRESENTING SUCH CONCESSIONS TO LABOR IN HIS PROMISED ALTERNATIVE PROPOSAL.

8. IT IS CLEAR THAT ANY EVENTUAL SETTLEMENT BASED ON A GENERAL INCOMES POLICY WILL REQUIRE THE SUPPORT OF THE SOCIAL DEMOCRATS AND THE TRADE UNION FEDERATIONS - BEFORE OR AFTER AN ELECTION. IT APPEARS AT THIS POINT THAT THE GOVERNMENT IS AIMING AT A POST-ELECTION SETTLEMENT.

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